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State dirigisme in megaprojects: governing the 2014 Winter Olympics in Sochi

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Abstract. This paper examines the preparation for the 2014 Winter Olympic Games in Sochi, Russia, and links it to debates on state rescaling and urban entrepreneurialism in megaprojects. It is argued that the Olympic megaproject in Sochi follows a model of *state dirigisme* which accords a salient role to the national state. Although private sector companies act as investors, the national state steers the planning process and directs the investment. This arrangement is reflected in a business – state relationship in which the boundaries between the public and the private sector become blurred, as the state establishes directive control over companies. The model of state dirigisme is underpinned by a nationalist narrative which frames the Olympic Games not primarily as a stimulus for economic development and global competitiveness but as a contribution to Russian greatness. This mode of governing the Olympic Games deviates from the model of entrepreneurial governance and the concomitant state rescaling, dominant in megaprojects in North America and Western Europe, in according a prominent role to the national state rather than to market-led development pushed by cities as lead actors.

Governing megaprojects

The dominant mode of governing megaprojects has undergone a marked shift from government to governance in the decades since World War II. If government is the hierarchical management by the national state, then governance can be understood as a decentralised, horizontal form of coordination between state and nonstate actors. In what Altshuler and Luberoff (2003, page 8) call the "great mega-project era" in the 1950s and 1960s, modernisation was the rallying cry of megaprojects. Aiming at the democratisation of public goods such as water, electricity or transport, Fordist national governments disbursed unprecedented funds for megaprojects in a big push to modernise cities (Lehrer and Laidley, 2008). Initiated and funded by the state, the government of megaprojects reflected the dominant form of urban politics at that time, which relied on the nationalised formation of capital accumulation and state regulation (Brenner, 2009; Harvey, 1989).

During the 1970s, however, two significant changes began to emerge in urban politics that moved megaprojects more towards a model of governance. First, there was a *rescaling of statehood* in which capital flows and urban competition are upscaled to the global level, whereas the pursuit of growth agendas is downscaled to the local level of urban politics (Brenner, 2009; Swyngedouw et al, 2002). In this process, the national state increasingly devolves institutional capacities to the local level, concentrating on providing the necessary economic, legal, and institutional framework for facilitating market-led urban development and attracting private capital (Brenner, 2004; Harvey, 1989). Second, there was a turn towards *urban entrepreneurialism*. This entrepreneurialism prioritises economic growth as a political goal, bolstering local risk taking, inventiveness, place promotion, and profit thinking (Hall and Hubbard, 1996; Harvey, 1989; Ward, 2003). The model of entrepreneurial governance favours market-led development, in particular through the instrument of public – private partnerships instead of a top-down hierarchy (Brenner, 2004; Brenner and Theodore, 2002).

This shift towards state rescaling and entrepreneurial governance is condensed in the view that megaprojects serve as a tool for repositioning cities in global capital flows in order to boost economic growth (Lehrer and Laidley, 2008; Olds, 1995).

This change in the mode of governing megaprojects can also be traced—with a certain time lag—in the Olympic Games. Whereas both the Summer and the Winter Games exhibited significant state involvement and a high share of public sector funding until the end of the 1970s, private sector investment has come to dominate since the 1980s—with a few notable exceptions such as Lillehammer 1994 or Beijing 2008 (Essex and Chalkley, 2004, page 215; Preuss, 2004, page 19). Nowadays, the Olympic Games are often seen as "a mechanism for attracting mobile capital and people ... in a period of intense inter-urban competition" (Hall, 2006, page 63). In a similar vein, Burbank et al (2001) argue that cities in North America have been adopting a 'megaevent strategy': a specific type of urban policy in which cities worldwide compete among each other for megaevents as crucial stimuli for urban development and economic growth (Chalkley and Essex, 1999).

With most of the attention focusing on cities and regions in Western countries (eg, Altshuler and Luberoff, 2003; Priemus et al, 2008), megaprojects outside of the Western world have often escaped academic attention. In the case of the Olympic Games, for example, comparatively little is known about the modes of governing the games in Beijing 2008 or Nagano 1998 (for a notable exception see Broudehoux, 2007). Also, much of the literature concentrates on world cities of global significance, while neglecting the role of smaller cities (Robinson, 2006). Díaz Orueta and Fainstein (2008, page 761) argue, however, that expanding research on megaprojects beyond its traditional geographical boundaries is crucial, since it allows the analysis of a broader spectrum of regulatory arrangements alongside neoliberalism and its local contextual variations (Larner, 2003; Peck and Tickell, 2002). In particular, it opens up a more variegated perspective on the rescaling of statehood and the interaction between the national state, cities, and the private sector as the key actors in any megaproject.

As a contribution towards understanding the variegated modes of governing megaprojects, the present paper examines the coordination of the preparation for the 2014 Winter Olympic Games in Sochi. I argue that the regulatory arrangement of the Sochi Olympics embodies a distinct model of *state dirigisme* that accords primacy to the national state, challenging conventional accounts of state rescaling and urban entrepreneurialism. This model is reflected both in the narrative framing of the Olympic Games as a stepping stone for national greatness and in the structure of interaction between the national state and big business. In Sochi the national state coordinates the preparation process and directs the investment for the Olympics, reining in the autonomy of the private sector. Despite the formally high share of private investment, principles of entrepreneurialism that emphasise profitability, market-led development and the international mobility of capital take a backseat to directive state action. The empirical claims in this paper are based on published sources available in the public realm, mostly from Russian nationwide broadsheets. In general, newspapers present one of the most reliable sources of information in Russia and present a conservative interpretation of events, given extensive state control of the media and the constant possibility of retribution or censorship.

The politics of urban and regional development in post-Soviet Russia

The rapid economic contraction and restructuring as well as the reorganisation of the state apparatus following the collapse of socialism wrought profound socioeconomic change on Russia. In a transition modelled on the North American and Western European experience and engineered by Western governments and aid organisations, Russia was to undergo marketisation, privatisation, and decentralisation (Åslund, 2002). The dissolution of the Soviet ruling elite and the opening up to global competition would bolster the emergence of a market capitalism that promoted efficient production and private investment governed by market principles. Yet, the envisioned transition to the blueprint of Western-style market capitalism never materialised (Hedlund, 2008). Far from enabling the free play of market forces, the mode of political economy that has emerged in Russia under Putin in the new millennium still assigns to the state a prominent role in coordinating economic activity, accumulating capital, and directing investment (Lane, 2008).

On the regional level, the reforms after the collapse of the Soviet Union translated, among other things, into the law on local self-government. This regulation was to give municipalities greater autonomy in resolving issues of local importance, veering away from what Golubchikov (2010, page 630) calls the "rigid scalar etiquette of administrative subordination and redistribution" (see also Gel'man, 2003; Golubchikov, 2004). Yet the devolution of central power and planning competencies failed to deliver what it had promised, partly because it was not accompanied by a corresponding increase in the budget available to local municipalities (Gel'man, 2009). This one-sided reform had a dual effect: it perpetuated the dependence on subsidies from the national level and it started the search for private capital to leverage development.

The administrative reforms created an uneven landscape of urban and regional development in Russia. Liberated from the administrative fetters of socialism and the obligation to share revenues with more disadvantaged regions, cities such as Moscow and St Petersburg have logged sustained economic and population growth since the mid-1990s. Private capital started to shape the spatial structure of cities as gentrification, shopping malls, and office towers began to spread (Nedović-Budić et al, 2006). Place promotion became important as a means of attracting investment in interurban competition and cities' identities were increasingly refashioned to embrace the symbolic imagery of modernism and world city status that came along with the narrative of urban entrepreneurialism (Golubchikov, 2010; Young and Kaczmarek, 1999; 2008). Peripheral areas, on the other hand, which are lacking attractiveness for private investors, have been decoupled from this spectacular growth and left largely to their own devices.

A national project

Just as Moscow represents the economic and political centre of Russia and St Petersburg its cultural heart, Sochi is Russia's quintessential resort town. The Russian Empire was not able to assert control over the territory that is now Sochi until the second half of the 19th century, but soon after that Sochi began to enjoy a burgeoning popularity as a seaside resort and climatic spa due to its favourable location on the shore of the Black Sea near the Caucasus Mountains (see figure 1). Between 1903 and 1915 the population expanded from about 1000 to more than 10 000 and Sochi started to boast a growing number of mansions and spa hotels (Koncevaja, 2007). After the October Revolution in 1917, Sochi experienced rapid development as a tourist destination and Soviet planners converted the city into a recreational resort for the working class. Leading figures of the Communist Party, not least Stalin, had summer residences built in or near Sochi and the population kept rising from more than 70 000 residents at the end of the 1930s to more than 300 000 in the 1980s. As the heart of the Soviet Riviera, Sochi became the most popular destination for planned tourism in the Soviet Union and the bed capacity rose to more than 80 000 in the late 1980s (Ermakov, 1994; Šumov and Andreev, 2008).

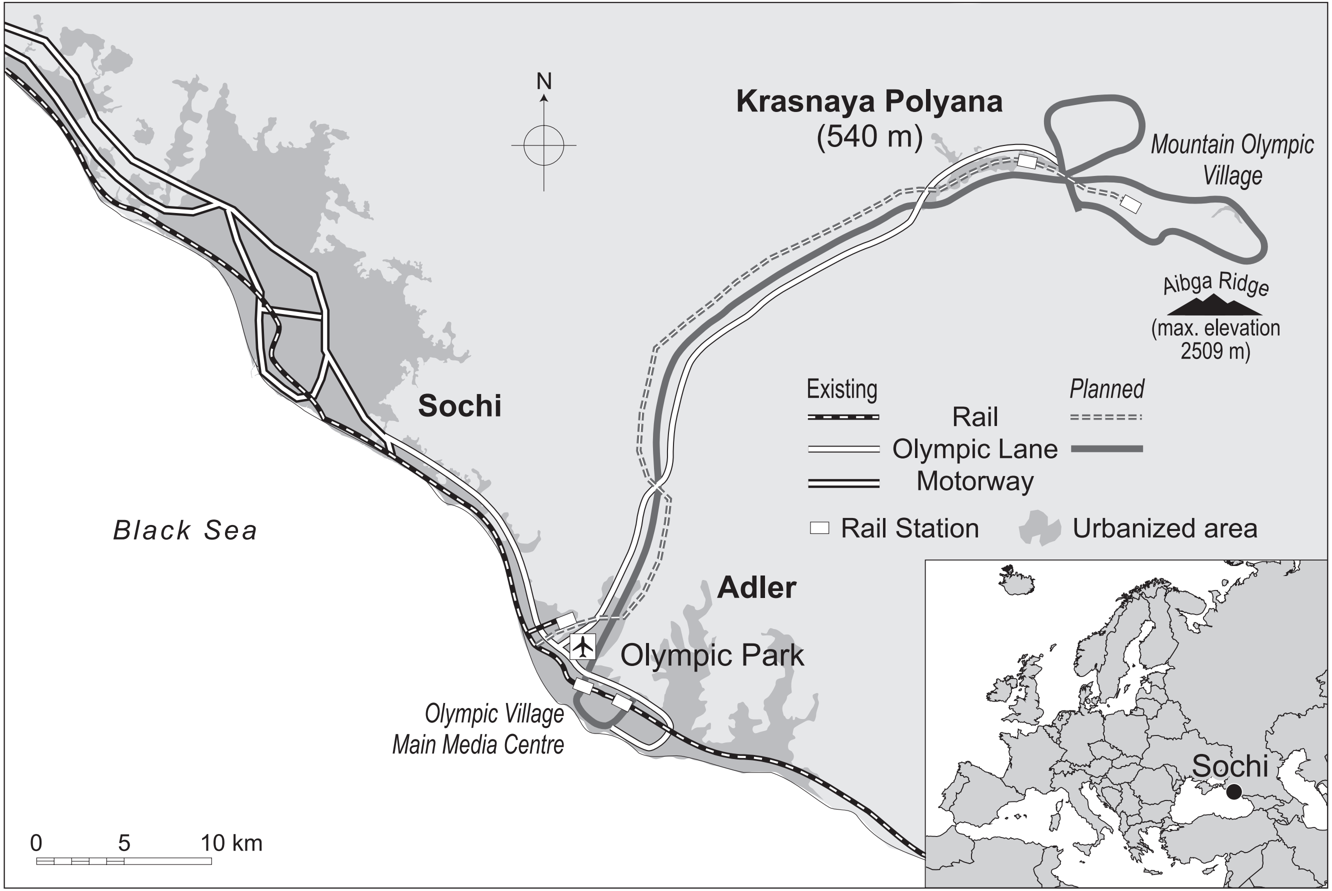

Figure 1. Map of the Sochi region with major planned transport infrastructure for the Olympic Games 2014 (source: Bidding Committee Sochi, 2006; various newspapers).

After the collapse of the Soviet Union, tourist numbers dropped from more than 5 million tourist arrivals to almost 2 million at the beginning of the 1990s and several sanatoria closed down as state subsidies for Sochi dried up (Ermakov, 1994). What is more, with the disintegration of the multiethnic state, armed conflicts became an everyday reality in the Caucasus region. The civil war in Abkhazia, just 50 km from the centre of Sochi, turned the region into a geopolitical hotspot in the 1990s and devastated famous Soviet resort towns on the Black Sea Coast such as Sukhumi.

Notwithstanding these adverse conditions, Sochi has experienced a remarkable rebound over the past ten years, not least aided by the nationwide economic boom since 2000. Owning property for a summer retreat at the Russian Riviera has again become de rigueur for the Russian elite and big Russian corporations alike, driving up real estate prices to levels that rival those of Moscow and pricing local residents out of the market. In early 2010 residential real estate in Sochi sold for an average of US $3200 per m^2, while luxury apartments were priced at US $5000 or more. This was up from a price range of between US $1500 and US $2000 in the early 2000s, but down about 40% from the excesses immediately before the onset of the financial crisis (Agureeva, 2010; Blackwood Real Estate, 2008). Tourist numbers, too, have increased and are now hovering at slightly less than 5 million arrivals annually (*RIA Novosti* 2010c). Despite the beating of the 1990s, Sochi thus continues to be the quintessential Russian summer resort of national significance, self-consciously marketing itself as the 'summer capital' (*letnjaja stolica*) of the Russian Federation.

The Russian government's choice of Sochi as a host city for the 2014 Winter Olympic Games tallies with the significance of Sochi for Russia. Trying to bring the Olympic Games to Sochi was not a new idea. Russia had chosen Sochi to compete for the 1998 and 2002 Winter Olympic Games, but the International Olympic Committee (IOC) rejected the bids, citing insufficient infrastructure: in the early 2000s the larger Sochi area still had but four old chairlifts and inadequate infrastructure dating back to Soviet times (Bidding Committee Sochi, 1994; *Neue Zürcher Zeitung* 2003). The bid for the 2014 Games in 2007, however, was different from the previous one in two crucial respects. First, Russia, by then in its seventh year of sustained economic growth, had promised an unprecedented investment of US $12 billion to make Sochi ready for the Winter Olympics and, second, the city had found a potent political sponsor and supporter in the then President of Russia Vladimir Putin.

From the very beginning of the 2007 Olympic bid, the Games were Putin's pet idea. Not only did he sponsor the idea domestically by marshalling political and financial support, but he also actively lobbied for Russia and the Olympic Games in the international arena. As part of his efforts, Putin began to hold state receptions in his summer residence in Sochi and to spend his skiing holidays in the nearby mountain village of Krasnaya Polyana. Early in his presidency, Putin proclaimed the goal of developing the Sochi region into a world-class winter resort to rival established destinations such as Davos in Switzerland (*Neue Zürcher Zeitung* 2003). In 2007 Putin declared his intention to pursue this plan, no matter whether the Olympic Games would be awarded to Sochi or not: Russia was to have a European-style resort it could be proud of and where its citizens could go on holiday (*Vedomosti* 2007a). Ambitions to lift Sochi onto the global stage of winter resorts were underwritten by a Federal Target Programme for the development of Sochi, which was initiated as a national priority by the Russian government. Passed in 2006, the programme carried an investment volume of US $12 billion (RUB 314 billion) in case Sochi won the Olympics and of US $4.5 billion (RUB 123 billion) in case it failed. Indicative of Russia's economic boom, this sum dwarfed the US $1 billion proposed for the development of Sochi in the early 2000s (*Neue Zürcher Zeitung* 2003).

When the Games were awarded to Sochi in the IOC session of July 2007 in Guatemala, Russia celebrated the victory over the contenders Salzburg (Austria) and Pyeongchang (South Korea) as a national victory. The Olympics were hailed as having the potential for becoming a new 'national idea' (*Vedomosti* 2007a). Even more than that, they were framed as a contribution and recognition of Russia's reemergence as a great power: "The victory of Sochi is perceived by the people and by the political elite as a symbol of success and of the resurrection of Russia's past strength" (*Vedomosti* 2007b). This rhetoric ties into the dominant geopolitical narrative in Russia that envisions the reassertion of the country as a great power in international politics (Neumann, 2008). This geopolitical vision is interwoven with the strong nationalist sentiment in Russia that instils a sense of pride about their country in Russian citizens (Khachaturian, 2009). It does not come as a surprise then that the Russian delegation in Guatemala intoned the Soviet national anthem after the results had been announced (*Vedomosti* 2007c).

Upon being awarded the Olympic Games, the nation-wide newspaper *Izvestija* ran the headline: 'Putin has won the 2014 elections' (*Izvestija* 2007). In a commentary, the Olympic Games were celebrated as the ultimate international recognition of the power of Vladimir Putin:

> "It was Putin who had the decisive importance.... Over the past, say, five years the world has come to understand that this man decides everything in Russia, no matter what you call the version of democracy that evolved under his leadership. The world got convinced that there is a lot of money in Russia—that it becomes more and more—and that this man controls it, whatever company it may formally belong to" (*Vedomosti* 2007d).

The lead role of the head of state in lobbying for the Olympics contrasts with the findings of Burbank et al (2001) in North American cities where growth coalitions between enterprises and local elites peddled Olympic bids drawing on private funds. The rhetoric of economic growth, which is so often inextricably linked to urban megaevents such as the Olympics (Hiller, 2000), played only a marginal role in the bidding process in Sochi. That is not to say that businesses will not benefit from the preparation of the Olympics through gaining skills and expertise and that the region will not experience a thorough modernisation of its infrastructure. But economic benefits are mostly represented as an outcome, not as a legitimation or rationale for hosting the Olympics. Not unlike the situation in China, the Olympics are read primarily as a sign of national greatness and promise worldwide recognition (Broudehoux, 2007; Xu, 2006). In this respect, the games in Sochi are just as much an effort in Russian nation-building as in urban and regional transformation.

Coordinating the construction of the Olympic city

In line with the nation-centric reading of the Olympic Games, the coordination of the planning and construction process has also been placed largely under the authority of the national state. As a project of national priority, the delivery of construction and preparation is controlled by the highest levels of the Russian government. The pivotal role of the then President, now Prime Minister of Russia, Putin is reflected in the organisational structure of the Sochi Winter Olympics. Shortly after winning the Olympics, the Russian government transferred a large part of the funds from the Federal Target Programme to the newly founded state company Olimpstroj which was put in charge of conducting and supervising the construction programme for the Olympics. Although it is common for the delivery of infrastructure to be contracted out to special-purpose entities, this arrangement differs from that of previous host cities in that both the city and the organising committee have limited control over the construction process. The head of Olimpstroj is appointed by and reports to the Deputy Prime Minister and the Presidential Administration, but not to the organising committee (*Vedomosti* 2007e). The work of Olimpstroj is flanked by the so-called Olympic bill (The Government of the Russian Federation, 2007a), passed by the State Duma at the federal level, which provided the legal framework for transforming Sochi into an Olympic city. Most importantly, this bill facilitated the procedure for relocating property owners for the purpose of building Olympic facilities.

The concentration of authority at the national level relegates the city of Sochi to a comparatively passive role in the preparation for the Olympics. Lacking both the political clout and the funds to influence the investment and construction on its own territory, it has largely been put under the tutelage of the national state. In contrast to previous Olympic Games, the Sochi organising committee is headquartered in Moscow, where the pivotal decisions are made. It therefore consults primarily with national rather than with local authorities. Moreover, local politics is aligned with the political line of the Kremlin. The current mayor of Sochi belongs to the ruling party and was elected with the approval and support of both Putin and the governor of the province in April 2009. According to news reports, the main candidate of the opposition, the prominent politician Boris Nemcov, was barred from access to the media, and state-owned television channels launched a campaign of denigration against him (*Vedomosti* 2009a).

The Olympic preparation that needs to be governed in Sochi is colossal. Unlike in other regions in the Russian periphery, the population of the Sochi area keeps growing due to heavy in-migration both from within Russia and from the neighbouring Caucasus countries. Today, the Sochi metropolitan area has a population of 411 000 and stretches for 145 km along the coast of the Black Sea. Covering 3502 km^2, it is a multicore conurbation, the largest core being the city of Sochi proper with a population of 134 000 (Goskomstat, 2007). Transport as well as water and electricity supply infrastructure largely date back to Soviet times and are already operating at peak capacity, especially during the high season in the summer months. The region suffers from chronic power shortage and the additional load for the electric grid due to Olympic construction is estimated to be another 650 MW. Traffic jams are a common sight, not only during the rush hour, when cars travel at average speeds of less than 15 km per hour (Nemcov and Milov, 2009).

Table 1. Comparison of projected Olympic capital investment in Vancouver and Sochi based on bid books (US $2006) (sources: Bidding Committee Sochi, 2006; Bidding Committee Vancouver, 2002).

	Vancouver 2010	Sochi 2014
Sports venues		
New	5/13	14/14
Existing or upgrade	8/13	0/14
Budget (US $ million)	261	806
Infrastructure investment		
Transport	o	+
Energy	–	+
Visitor accommodation	–	+
Utilities	–	+
Total capital investment (US $ million)	947	8 804

Note: – indicates minor (less than US $100 million), o indicates medium (more than US $100 million), + indicates major (more than US $1000 million).

Given Sochi's status as a summer resort and the deficient infrastructure, hosting the largest winter sports event in the world is a tall order. What is more, in contrast to almost all other Olympic host cities, Sochi does not have a single sports venue available but has to build everything from scratch. It will also be an exception in that it is the first city in a subtropical climate to host the Winter Olympic Games, which requires additional preparations to guarantee reliable snow conditions. The Russian government plans a full-scale remodelling of the city and projects to spend almost ten times more than Vancouver (see table 1). A governmental decree stipulates the construction programme with more than 240 objects—mainly sports venues, transport, and energy infrastructure—to be built in connection with the Olympics (The Government of the Russian Federation, 2007b). By far the largest proportion of investment is not in sports facilities but in infrastructure: only 16% of funds are earmarked for sports facilities, while 59% are to be funnelled into transport and 25% into energy infrastructure. The most expensive project is the combined rail and road link for more than US $6 billion to connect the ice sports cluster in Adler, 25 km southeast of Sochi (proper), to the snow sports cluster in the village of Krasnaya Polyana, 65 km from Sochi at an altitude of 540 m (see figure 1). This unprecedented scope of infrastructural upgrading makes the impact of the Olympic Games on Sochi not incremental but abrupt: it is an attempt to lift a city into the global limelight in one fell swoop.

It comes as no surprise then that the Sochi Winter Olympics are bound to become the most expensive Winter Olympics ever in terms of capital investment. Estimates of the total costs vary significantly (see figure 2). The capital investments initially projected in the bid book in 2006 amount to more than US $6 billion (for better comparison, this and all subsequent amounts are deflated to US $2006, unless noted otherwise). More recent estimates by the Ministry of Regional Development peg the investments for the Olympics in the period from 2009 to 2012 at more than

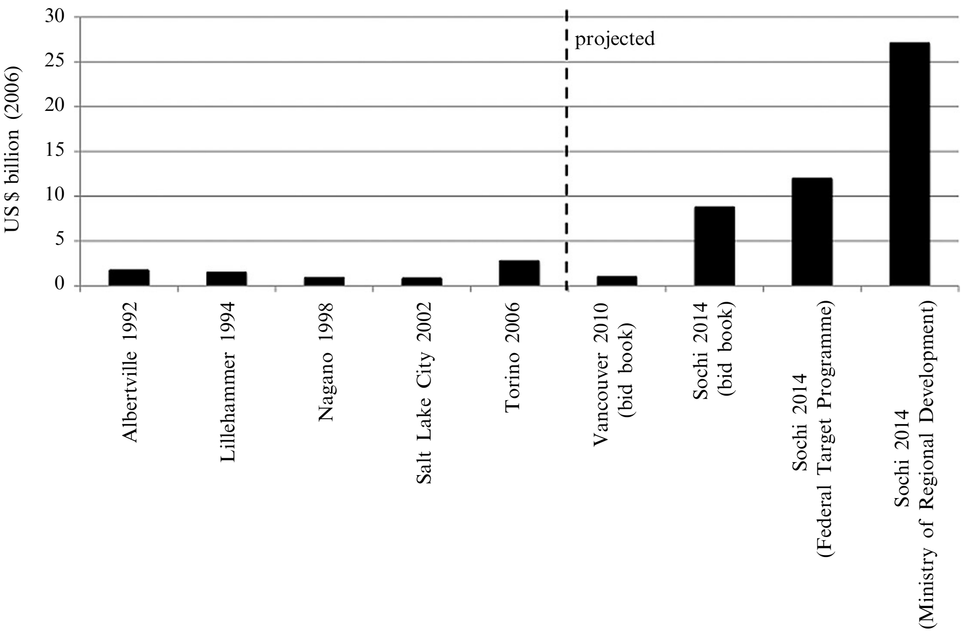

Figure 2. Capital investment for the Winter Olympic Games 1992 to 2014 (sources: Bidding Committee Sochi, 2006; Bidding Committee Vancouver, 2002; Bondonio and Campaniello, 2006; Chappelet, 2002; *Vedomosti* 2009a).

US $27 billion (*Vedomosti* 2009b). Like many megaprojects (Flyvbjerg, 2008), the costs of the Sochi Olympics are likely to significantly exceed current projections. The Olympics in Vancouver, for example, had a final budget totalling more than US $4 billion for the organisation of the event and the construction of sports venues, excluding other infrastructure, with cost overruns of almost 50% for the provincial budget of British Columbia (Reuters, 2010).

Financing the Olympics

Despite the prominent role of the national state in coordinating and delivering the Olympic Games, the share of private investments in the total funding is considerable. Initial calculations envisioned a contribution of almost US $8 billion from the private sector, while the most recent estimate (June 2010) speaks of US $16.5 billion (RUB 500 billion) or more than 50% of the total investment (*RIA Novosti* 2010b). The ensemble of private investors in Sochi comprises a Who's Who of Russian big business with close connections to the Kremlin (*Vedomosti* 2007a). Companies such as Interros, owned by oligarch Vladimir Potanin, and Basic Element, owned by oligarch Oleg Deripaska, were designated for major construction projects, just like the state-owned Gazprom. Yet, what makes companies invest into Olympic objects, given that investors and business experts openly acknowledge that most projects do not stand to generate any profit (*Kommersant* 2009b; *Ogonëk* 2010)? As the business newspaper *Kommersant* puts it: "because of the bad return on investment, investors see the funding of sports facilities as investments into lobbying power [*administrativnyj resurs*]" (2009a). This hints at the close relationship between the state and big business; so close indeed that what figures as private investment might be more adequately called quasi-private: through a variety of ways it is directed by the national government instead of market forces.

Directive control by the national state over private investment has taken different forms in the case of Sochi. For one thing, state banks and the Russian government are the major creditors for Olympic construction. Almost all major investors are either owned or co-owned by the state or receive state-backed funding. The key creditor for private Olympic construction is the state-owned VneshEkonomBank. It has issued Interros, the major investor in the snow cluster in Krasnaya Polyana, with a loan of US $750 million, used towards the construction of a ski resort, and cofinances the Olympic Village built by Basic Element (*Kommersant* 2009d). VneshEkonomBank, in turn, received bail-out funding from the National Welfare Fund, a state reserve fund, when the financial crisis brought it to the verge of bankruptcy in 2008 (*Kommersant* 2009b). Basic Element, the investor for the Olympic Village, the Main Media Centre, and the renovation of Sochi airport, received a US $4.5 billion bail-out loan from the Russian government in the fall of 2008 after it had taken a severe beating in the financial crisis. Sberbank, the largest bank in Russia and also in state ownership, acquired a 25% share of the company Krasnaya Polyana which is building the ski jumps in Krasnaya Polyana (*Kommersant* 2009a). Other, formally private capital comes from state-owned enterprises like the energy company Gazprom, which is building the Biathlon and Cross-Country Skiing Centre, or Russian Railways, which is the contractor for the joint road–rail link from Adler to Krasnaya Polyana. In a newspaper article, a Russian Railways representative is quoted as saying that his company "simply executes the government's orders" (*Moscow Times* 2009), a situation likely to be symptomatic for other state enterprises as well. Supposedly private investments are thus subject to state control or even state ownership of capital.

Those private investors who have pledged to contribute large sums frequently receive preferential treatment in bureaucratic processes, whereas those who are reluctant to do so may face legal retribution. The same is also insinuated by the head of Olimpstroj who is not shy to state in public that "the state will remember the investors" (*Kommersant* 2009e). Golubchikov (2004) reports that, despite reforms in urban planning, the total number of approvals to legally acquire land in Russia varies from between 50 and 250. More than 40 different authorities and organisations are involved in this expensive and time-consuming procedure with uncertain results. Even if all rules have been followed, this does not mean that formal flaws cannot be found as a pretext to contest the validity and legality of contracts. Investments into lobbying power and into being remembered by the state are therefore crucial for setting up a business in order to guarantee the protection of assets and continuous operation. As Golubchikov concludes: "only those connected with authorities survive" (2004, page 236).

The land dispute over the ski resort Alpika Service can illustrate the consequences of a lack of investment into 'soft capital' such as lobbying power. The regional authorities closed down the resort several times in the main winter holiday season, citing unresolved land claims. The original owners finally sold the complex to the state-owned Gazprom at the end of 2007. The sales price of US$15 million for Alpika Service is considered to be considerably below the market value of even the plot of land, estimated at US$100 million, not counting the skiing infrastructure (*Russian Business* 2008). It is even more surprising, however, that the previous owners sold the complex below value after the Olympics had been awarded to Sochi. With billions of dollars in state monies scheduled to pour into Sochi over the next few years and the government's resolution to turn Sochi into a winter resort of global significance, anybody already owning a large plot of land with skiing infrastructure stands to receive good business.

It is hardly a coincidence that Gazprom, having clinched the deal to acquire Alpika Service, moved to take over the financing of the cross-country skiing centre, which was initially slated for public funding. It also stepped in as the Belarusian company Triple pulled out of funding the biathlon complex in January 2010, as relations between Russia and Belarus deteriorated (*RIA Novosti* 2010a). While investment into state-designed and at first glance unprofitable projects in Olympic construction may sometimes be considered just as a favour and service to the state, at other times investors receive preferential treatment. Since land is the one resource that the Russian state has in abundance, loyalty often translates into the option to buy and legally own profitable land plots in an area slated for large-scale development. It could also mean receiving state protection: for example, by being spared lawsuits or getting access to loans from the state under special conditions, getting tax breaks or the right to move capital to offshore havens (*Ogonëk* 2010).

The strength of state government of Olympic investment and construction became particularly evident during the financial crisis of 2008 and 2009. As lending policies tightened and lending conditions on the capital markets rapidly deteriorated, real estate investors worldwide were faced with illiquidity and forced to withdraw from existing and new projects. This development also affected Vancouver, where the crisis forced the investor for the Olympic Village to abandon the project. Since the city had signed a guarantee for this project, it had an obligation to step in with funding (*The Vancouver Sun* 2009). In Russia the financial crisis hit even harder, with the oil price plummeting from a high of US$147 per barrel in July 2008 to under US$40 within less than six months. A devaluation of the Russian Rouble vis-à-vis the US dollar by 25% put additional strain on the Olympic budget, since it made imports of construction equipment considerably more expensive. In this adverse macroeconomic situation, the dismal return on investment for most Olympic projects and the financial crisis kept investors at bay and tenders for the main Olympic objects received not a single application (Prime-Tass, 2009). Contrary to what happened in Vancouver, however, the Russian government announced that private investors would now be stepping in to fill the hole and it started to attract investors "in a directive fashion [*direktivno*]", as the business newspaper *Kommersant* phrased it (2009d). As a result, by the end of 2009 eight of eighteen facilities had changed from public to private ownership since the announcement of the bid, notwithstanding the financial crisis.

In times of financial pressure on the state budget, the Russian state is able to convert public into 'private' expenditure by exerting dirigiste power and granting investors in sports facilities concessions such as landownership. It is characteristic of this 'directive' approach that investment decisions are based not on return-on-investment calculations but are made on the basis of a political calculus. Since this tight coupling of government and big business works only within Russia, it is evident why there was not a single international investor willing to bid for one of the more than 235 construction objects (The Government of the Russian Federation, 2009). "Investors", Pagonis and Thornley (2000, page 765) write about development projects in Russia, "are 'invited' to take part in a market game in which the rules are controlled by political agents." This dirigiste power allows the government to publish the share of private investment *before* the deals are closed for these projects. It is the share that the government has set as a target and the influential figure of Vladimir Putin is the main guarantor that this target will be met (*Ogonëk* 2010).

Discussion: state dirigisme in the Sochi megaproject

The transformation of Sochi reflects Russian political economy in a pronounced form: it features the national state as the primary driving force of regional development on the basis of a nationalist imaginary (cf Lane, 2008). The symbolic framing of the Olympics interprets them as a national victory that gives Russia the chance to demonstrate its greatness to the world. The prominent role of the national level holds equally true for the mode of governing this megaproject. The national state conducts Olympic planning, coordinates the construction work, and procures and directs investment. The issue here is not with state involvement per se, for the state is almost always implicated in coordinating activities, setting the legal framework, and funding megaprojects such as the Olympics (eg, Essex and Chalkley, 2004, page 213). What sets the case of Sochi apart is rather its scalar organisation and the peculiar mode of the state – business relationship: the prevailing form of coordination is hierarchical *state dirigisme* on the national level in which the private sector, by and large, lacks operational autonomy.

State-business relationship

The salience of the national state in coordinating the Olympic preparations in Sochi does not imply the absence of private capital or corporate interests. On the contrary, several major Russian corporations are investing in sports facilities and urban infrastructure. Yet, the relationship between the national state and big business must be understood within the political economy of dirigisme in Russia. A significant part of private sector investment is backed by loans from state-owned banks or comes from bail-out funding, which effectively maintains state control over the use of funds. Where the state is not in direct control, attracting private sector investment works through stick and carrot. Businesses may receive favourable treatment if they show loyalty to the state and take over the financing of projects. Investments do not create an immediate payoff, but are important in maintaining a good relationship with the authorities in order to be considered for future, more profitable, projects. The carrot of future rewards is complemented by the stick of legal retribution. In Sochi, disputes over the legality of land deals and development permits coerced companies into compliance with state interests [see Hanson and Teague (2005) for the prominent case of Yukos]. While the state sometimes reciprocates for loyalty, this is by no means always the case and companies are expected to contribute funding without having a clear prospect of recouping.

The close ties between the state and business corporations blur the boundaries between public and private. This blurring also happens in numerous megaprojects in Western countries where public – private partnerships have become a popular form of cooperation between the state and private companies (Díaz Orueta and Fainstein, 2008; Lehrer and Laidley, 2008). Public – private partnerships, however, are about ceding state control to the private sector in exchange for private investment. This makes for investment decisions that are increasingly based on profitability (Fainstein, 2008). In Sochi, by contrast, the state remains in control of private projects and, even in times of tight credit, is able to coerce the private sector to take on the funding of highly unprofitable ventures such as ski jumps.

The strong state control over the private sector in the Olympic megaproject in Sochi almost reverses the situation in many cities in the Global North and the Global South, where private sector interests increasingly dominate urban planning, limiting state control (eg, Kuyucu and Ünsal, 2010; Shatkin, 2008). Instead of state capture—the promotion of business interests through state action—the situation in Sochi could more adequately be characterised as business capture—the promotion of state interests through business action (see also Yakovlev, 2006). State dirigisme as a mode of governing megaprojects therefore asks us to rethink conventional understandings of the private sector as responding to market incentives and the state as providing a framework for development.

Scalar organisation

The discussion on state rescaling in the context of megaprojects claims that capital accumulation and state regulation, once the primary domain of the national state, are increasingly dispersed at multiple scale levels (Brenner, 2009; Swyngedouw, 2004). Cities become the main locus of capacities for economic development and are to be positioned to capture international capital flows from investment funds and multinational corporations (Brenner, 2004; Olds, 1995). In Sochi a rescaling of institutional capacities to the subnational scale of the city and the supranational scale of global business is almost completely missing. Capital for investments is procured from the federal budget or national businesses, while international actors shy away from investing (*Kommersant* 2009c). That is hardly surprising, considering the political economy of attracting capital. The Russian state cannot apply the same method of stick and carrot to international companies as it does to Russian companies. Threatening foreign companies with lawsuits or closure is, by and large, ineffective, since their major operations do not fall under Russian jurisdiction. In turn, international companies cannot receive similar compensation for their long-term loyalty as Russian companies, since an investment often presents a one-off action.

In a similar vein, local actors lack political and economic clout. The city of Sochi has little control over the planning process and consultations are made mainly with the national government rather than with local authorities. That is also the reason why the organisational structure is centred on national authorities and the national state is taking ownership of the construction process and the finished venues. Without doubt, the case of Sochi is exceptional in that it involves the hosting of a high profile megaevent in a city with special significance for the Russian elite. This significance and the economic interests that come with it warrant extensive state intervention to safeguard Sochi's development according to the demands of the national elite. At the same time, however, the involvement of the national state in megaprojects is not untypical in Russia. St Petersburg's world city ambitions, for example, are backed by the Russian government through a redistribution of resources at the national level (Golubchikov, 2010). The hallmark Okhta Tower in St Petersburg receives central support from the Kremlin (Dixon, 2010) and megaprojects in Moscow cannot do without extensive state involvement (Pagonis and Thornley, 2000). The degree of control through the state in megaprojects is something that is setting Russia apart from most of Eastern Europe and makes it more similar to China. Whereas in Eastern Europe the neoliberal transition agenda caught on quickly, resulting in a "sharp reduction in the authority of the government to control private initiatives" (Stanilov, 2007, page 423), in China the state remains implicated in urban politics (Wu, 2003).

The classic interpretation of megaprojects through the lens of entrepreneurial governance therefore has limited purchase in this case. The concept of governance as the decentred, horizontal coordination of a broad range of state and nonstate actors is misplaced, considering the dirigiste position of the national state and the vertical hierarchy of coordination—known as *vertikal' vlasti* in Russia. Neither is this megaproject particularly entrepreneurial. Profitability and economic growth play a marginal role both in the rhetoric and in the economic rationality of the project, which lacks the dominance of return-on-investment calculus typical for megaprojects in Western countries (Fainstein, 2008).

While there is no devolution of institutional capacities in Sochi, there is a clear spatial privileging through the national state. In stark contrast to the situation in the Soviet Union, the Russian state channels investments into the three iconic cities—Moscow, St Petersburg, Sochi—while leaving the rest of Russia to compete for scarce resources from the national budget or to develop entrepreneurial policies to attract private sector investment. This state spatial strategy leads to an economic polarisation and a differentiation of developmental pathways (Brenner, 2004, page 214). Unlike in many Western cities, however, it does not primarily follow a market calculus in search of the highest returns (Smith, 2002, page 94) or boost the most competitive cities (Brenner, 2004, page 218). Transforming Sochi into a world-class winter resort is more a matter of demonstrating national greatness than about clinching a good deal to promote economic growth.

Might the case of the Sochi Olympics be more similar, then, to the Olympics in Albertville or Lillehammer, where the national state also took on most of the planning and financing of the project? From what the limited literature on these two Olympics allows us to extract for a comparison (Chappelet, 2002; Essex and Chalkley, 2004; Organizing Committee of the XVI Olympic Winter Games of Albertville and Savoie, 1992; Organizing Committee of the XVII Olympic Winter Games of Lillehammer, 1994), there seems to exist a parallel in the scalar organisation of the Olympic Games in 1992 and 1994 to that in Russia. The prominent role of the national state in Albertville and Lillehammer, however, was in significant part due to the small size of the two cities with a population of only about 20 000 each. Their size neither allowed them to raise sufficient funds to cover the investment nor did it provide the human resources and experience necessary for large-scale planning of megaprojects. The model of state involvement in Sochi is distinct from that in Albertville and Lillehammer, however, in that there is little of a corporatist element in Sochi, whereas in France and Norway state corporatism seems to have been the dominant mode of governing Olympic preparation. On the contrary, the project in Sochi exhibits an elite-driven character and a lack of public accountability and participation that is more characteristic of a private than of a public project. This arrangement does not live up to the benevolent managerialism or state corporatism that is sometimes claimed for Russia (see *Kommersant* 2007; Sakwa, 2008).

Conclusion

The Olympic Games in Sochi are a megaproject that contributes to a distinctive state spatial strategy in post-Soviet Russia in which select urban centres emerge as the privileged points of asset concentration. In contrast to many Western countries, and indeed to the postsocialist countries in Eastern Europe, this strategy does not coincide with a decentralisation of institutional capacities from the national state to subnational levels of authority. Quite the opposite: the preparation for the Winter Olympic Games in Sochi works through extensive national state dirigisme that both limits the institutional authority of the local state and reins in the operational autonomy of the private sector. It is a form of *government* that relies on vertical subordination rather than on horizontal coordination between state and nonstate actors typical of *governance*. The boundaries between public and private become blurred, as direct and indirect state control envelops the private sector and enables the national state to steer even private investment in its interest.

Russian state dirigisme therefore is a distinctive regulatory model of governing megaprojects that neither fits neatly into a narrative of global neoliberalism nor into the models of state corporatism and the developmental state. Taking the place of entrepreneurial governance is a traditional model of government and direct rule that collapses the distinction between public and private sectors and supersedes market coordination and return-on-investment calculations. Yet the project also lacks the key features of state corporatism or the developmental state, where the state would act as a benevolent Leviathan and directive state actions would take place on the basis of sustained negotiation between interest groups. The special relationship between the Russian government and Russian big business creates opaque structures that foreclose public transparency and the involvement of stakeholders in the planning process.

Compared with more entrepreneurial models of governance, the Russian model of state dirigisme makes it easier to muster and direct the enormous resources and to coordinate and align the multifarious interests of the different actors involved. Contrary to predictions that the increasing scale and costs of the Olympic Games make them prohibitive for cities outside of North America and Western Europe (Essex and Chalkley, 2004, page 225), this finding suggests that countries with a strong state and enough resources to foot the bill will indeed continue to be major players in the megaproject game. Whereas public concerns about cost overruns, social equity, and environmental impacts beleaguer many megaprojects in Western countries, there is a surge of those projects in countries with a strong directive state—albeit, at the expense of public participation and accountability. This geographical shift of megaprojects also calls for a greater attentiveness to the differential models of governing them.

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